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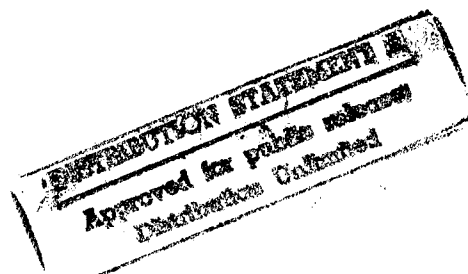
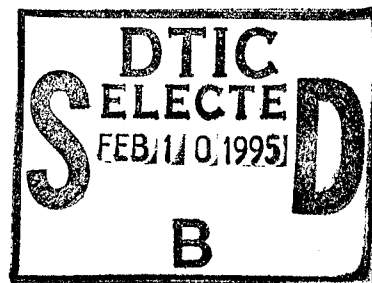
Testimony

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DOD Rental Payments to GSA

Statement of L. Nye Stevens, Director
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General Government Division



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DOD RENTAL PAYMENTS TO GSA

Summary of Statement by
L. Nye Stevens
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Operations Issues

The Subcommittee is concerned that the Department of Defense appears (DOD) to be spending more for building space at a time of significant downsizing and troop reductions. The 1993 President's budget estimates that DOD's rental payments to GSA for building space will increase from \$385 million in 1992 to \$402 million in 1993, an increase of \$16 million or 4 percent. However, in discussions with DOD officials about the increase, we discovered a significant error in the estimates. The Air Force contribution to the renovation of the Pentagon, \$12.6 million in 1992 and \$32.6 million in 1993, was mistakenly included as rental payments to GSA. After correctly including it in the budget category "rental payments to others," the revised payments to GSA actually decrease from \$373.3 million in 1992 to \$369.7 million in 1993, a net decrease of \$3.6 million or about 1 percent.

While DOD's rental payments to GSA decrease between the two years, its total rental payments for building space increase from \$1.05 billion in 1992 to \$1.10 billion in 1993. DOD officials attribute this increase primarily to the additional costs to renovate the Pentagon. Permanent custody of the Pentagon was transferred to DOD from GSA in 1991. At that time, the 50-year-old building needed major repair and renovation. Most of the needed repairs and alterations identified over the years had not been made. A plan was developed for the Pentagon's complete renovation. It is scheduled to take 11 years, cost \$1.03 billion, and be funded by user charges. In 1992, \$167 million has been budgeted; \$196 million has been authorized for 1993.

The disrepair of the Pentagon and the decrease of only 1 percent in DOD's rental payments to GSA are classic examples of structural and managerial weaknesses related to the Federal Building Fund, GSA's method of financing federal facilities. The revenue generated by the fund has been insufficient to meet operating and capital needs for a number of interrelated reasons: (1) a conceptual flaw in the Fund's design; (2) periodic rent restrictions; (3) a backlog of neglect in existing buildings; (4) a rising dependence on costly leased space; (5) a budget structure that makes leasing attractive in the short term; (6) the lack of a well-articulated location policy; and (7) the failure to develop a strategic plan to reverse disinvestment and provide quality working space.

The growing realization that the Fund has failed to meet its expectations has resulted in withdrawal of support for the concept. Not only has the Pentagon been removed from GSA's custody, Congress has given agencies like the Securities and Exchange Commission independent leasing authority and may remove the courts from the Fund. In addition, Senator Moynihan has recently introduced S. 2067 to abolish the Fund and replace it with regular appropriations.

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Mr. Chairman and Members of the Subcommittee:

We welcome the opportunity to appear before you today to address the Subcommittee's concern that the Department of Defense (DOD) appears to be spending more for building space at a time of significant downsizing and troop reductions. Specifically you have asked us to address why in the President's 1993 budget DOD's payments to the General Services Administration (GSA) for the office space GSA provides to DOD show an increase of about 4 percent from 1992 to 1993.

To be responsive to the Subcommittee's request, we performed a quick review of the estimated building space GSA will provide to DOD in 1992 and 1993. This review is based on discussions with officials from both DOD and GSA on why lease payments for building space are increasing. We also reviewed our reports on GSA's performance in the public buildings area in the past 3 years. A list of reports and testimonies broadly related to this topic is attached to my statement. My remarks today are based on our previous body of work as well as our discussions with GSA and DOD officials.

DOD RENTAL PAYMENTS TO GSA

The 1993 President's budget provides estimates of DOD's rental payments to GSA in 1992 and 1993. These estimates show that rental payments to GSA are expected to increase from \$386 million in 1992 to \$402 million in 1993, an increase of \$16 million or 4 percent. However, in discussions with DOD officials on the components of the increase, we discovered a significant error in the estimates. The Air Force contribution to the renovation of the Pentagon, \$12.6 million in 1992 and \$32.6 million in 1993, was mistakenly included in the rental payments to GSA. The contribution should properly be included in the budget category "rental payments to others." After making this correction, the revised rental payments to GSA actually decrease from \$373.3 million in 1992 to \$369.7 million in 1993, or a net decrease of \$3.6 million or about 1 percent.

TOTAL DOD RENTAL PAYMENTS

While DOD's rental payments to GSA decrease between 1992 and 1993, DOD's total rental payments for building space are estimated to increase from \$1.05 billion in 1992 to \$1.10 billion in 1993. DOD officials attribute this increase primarily to the additional expenses for the renovation of the Pentagon.

Permanent custody of the Pentagon was transferred to the Department of Defense from GSA in FY 1991. Starting in FY 1992, DOD ceased paying rent to GSA for its occupancy of the building. At the time of the transfer, the 50-year-old building was in serious need of major repairs and renovation. Many needed repairs and alterations to the Pentagon's structure and building systems had been identified over the years, but most of them had not been made. Deferred repairs and alterations included replacing deteriorated pipes and the leaking roof and repairing the sinking basement floor. The building was also in need of major renovation to make it safer and more functional. In

addition, its interior needs to be reconfigured to accommodate DOD's technological and office space requirements.

A plan has been developed for the renovation and modernization of the Pentagon, including the removal of asbestos in the building. The renovation is scheduled to take 11 years and cost a total of \$1.03 billion. The Pentagon Reservation Maintenance Revolving Fund, has been established to finance the renovation and continuing maintenance of the building. In 1992, \$167 million was authorized or appropriated for the first phase of the renovations; \$196 million has been authorized for 1993. It will be funded primarily by user charges, which in turn will come from operations and maintenance appropriations for the Services and Defense agencies.

The disrepair of the Pentagon and the decrease of only 1 percent in DOD's rental payments to GSA are classic examples of structural and management weaknesses related to the Federal Buildings Fund, GSA's method of financing federal facilities in its custody. These flaws have led to disinvestment in federal buildings and agency disincentives to reduce the cost of building space. We can comment on these flaws on the basis of our body of work on the Fund.

WEAKNESSES OF THE FEDERAL BUILDINGS FUND

The Federal Buildings Fund, established by Congress in 1972, was designed to finance all operating and capital costs associated with general purpose space. GSA charges federal agencies rent on the basis of commercial rents for equivalent space, and it deposits the receipts in the Fund. GSA uses this revenue for operating costs and capital expenses. When it was created, the Fund was expected to provide a steadier and more predictable source of funds than the direct appropriations which financed building costs prior to 1972.

For a number of interrelated reasons, however, revenue generated by the Fund has been insufficient to acquire new buildings or make needed repairs and modernization in existing buildings. The reasons include (1) a conceptual flaw in the Fund's design; (2) periodic rent restrictions by OMB and Congress; (3) a backlog of neglected and deteriorating buildings; (4) a rising dependence on costly leased space; (5) a budget structure that makes leasing attractive in the short term, despite higher long-term costs; (6) the lack of a well-articulated location policy; and (7) GSA's failure to develop a long-term strategic public buildings plan that can convince OMB, Congress, and the public to reverse its disinvestment in quality working space for federal employees.

This mismatch between revenue and needs is rooted in a conceptual flaw in the Fund. Its revenue is not based on either the actual or projected cost of providing space but rather on local prevailing commercial rates. Because there is no relationship between commercial rents and GSA's operating and capital needs, the Fund would generate sufficient revenue to finance capital investment only by happenstance, not design.

Another reason the Fund has generated less revenue than originally envisioned is that OMB and Congress periodically have restricted the rent GSA could charge tenant

agencies. From 1975 through 1989, rent restrictions reduced Fund revenue by about \$4 billion. Although OMB and Congress have removed most of the restrictions, Congress continues to restrict the amount of rent that the Departments of Agriculture and Transportation and the Food and Drug Administration pay GSA.

The mismatch between revenue and needs is best illustrated by recent congressional actions to supplement available revenues. Congress allowed GSA to use \$1.9 billion that the Fund borrowed from the Federal Financing Bank in 1990 and appropriated \$1.6 billion in 1991 to allow GSA to acquire and construct several new federal buildings that had already been approved.

The Pentagon is a classic example of an alarming disinvestment in federal building infrastructure which has resulted from insufficient revenue in the Fund. During the last two decades the federal government has neglected the need for capital investment in modern, quality facilities that federal agencies need to carry out their missions effectively. Nationwide, there is an estimated \$3 billion inventory of identified repair and alteration needs in addition to those of the Pentagon. OMB and GSA have confirmed that needed capital investment in existing as well as new federal buildings has been deferred. In our May 1991 report on deterioration in federal buildings,¹ we sampled 25 buildings in addition to the Pentagon and found that over one-third had major repair and alteration requirements that had been deferred for many years--some for as long as a decade. This problem will likely become more critical because over one-half of the 1,600 federally owned buildings are already at least 40 years old and buildings generally need major renovation every 20 years.

Disinvestment in Federal building infrastructure is shortsighted and has serious long-term cost implications. The Pentagon is certainly the most graphic example of neglect and deterioration, but it is not an isolated example. This lack of attention decreases the value of federal assets and costs the government more money in the long run. It also contributes to poor quality working space, impedes agencies' operations, and in some instances jeopardizes employees' health and safety.

Another consequence of inadequate investment in facilities has been the rising dependence on costly leased office space. Between 1969 and 1989, leased office space grew by 103 percent, and the ratio of leased to owned office space rose from 39 percent to 47 percent. The costs of leased space jumped from \$389 million in 1975 to almost \$1.7 billion today. GSA projects these costs to reach \$2 billion by 1994 as old, low-priced leases expire to be renewed at higher prices. Revenue that could be used to finance needed capital investment is being siphoned off to pay for the cost of increased leased space.

Perhaps the most important obstacle is the inherent bias against capital investment built into the current federal budget process. The need to recognize and record total

¹Federal Buildings: Actions Needed to Prevent Further Deterioration and Obsolescence, (GAO/GGD-91-57, May 13, 1991).

costs over a relatively short time period creates a significant disadvantage to owning federal buildings. In contrast, leasing costs can be spread out over a much longer period. As a result, proposals to lease space with lower annual costs, but much higher long term costs, frequently win out over proposals to construct or purchase buildings the total cost of which must be obligated in 1 or 2 years.

The lack of a well-articulated location policy can also increase costs. Almost 88 percent of federal civilian workers are located in metropolitan statistical areas-- frequently at higher costs than equivalent space in suburban or rural locations. In a May 1991 report on Navy office space,² we analyzed some cost factors in relocating selected Navy commands from the Washington area to 13 other metropolitan areas. Our analysis showed that potential exists for purchase or lease cost savings for buildings in many of the areas outside of Washington. This analysis illustrates the conclusions we reached in another report on facilities location policy³ that GSA should (1) develop a more consistent and cost-conscious federal location policy, considering the impact of modern telecommunications on traditional centralized locations; (2) encourage agencies to maximize competition and select sites that offer the best overall value; and (3) encourage agencies to consider incentives offered by localities to attract employers in making location decisions.

GSA has not yet adopted a strategic approach to its public buildings role and continues to operate with a regionally based project-by-project philosophy. If GSA had a comprehensive plan that laid out all building funding requirements and assessed their relative cost-benefit implications, it would be in a better position to manage and oversee those needs effectively. Additionally, Congress and OMB would be better able to make informed decisions regarding trade-offs that must occur between funding building needs and other competing government programs.

SUMMARY

The growing realization that the Federal Buildings Fund has failed to meet its original expectations has resulted in a gradual withdrawal of support for the concept. Not only has the Pentagon been removed from GSA's custody, in addition Congress has authorized other agencies such as the Securities and Exchange Commission to renovate or lease their own buildings. Congress may remove several hundred courthouses from the Fund as well. In addition, Senator Moynihan has recently introduced S. 2067, a bill which would abolish the Federal Buildings Fund and return

²Navy Office Space: Issues on Relocating Selected Commands from the Washington, D.C., Area, (GAO/NSIAD-91-107, May 17, 1991).

³Facilities Location Policy: GSA Should Propose a More Consistent and Businesslike Approach, (GAO/GGD-90-109, Sept. 28, 1990).

the financing all of GSA's building operating and capital costs to the regular appropriations process. We will be testifying on this bill in hearings scheduled for the first part of May.

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This concludes my prepared statement, Mr. Chairman. My colleagues and I will be pleased to respond to your questions.

Related GAO Reports and Testimonies

Federal Office Space: Obstacles to Purchasing Commercial Properties From RTC, FDIC, and Others (GAO/GGD-92-60, Mar. 31, 1992).

Long-term Neglect of Federal Building Needs (GAO/T-GGD-91-64, Aug. 1, 1991).

Navy Office Space: Issues on Relocating Selected Commands From the Washington, D.C., Area (GAO/NSIAD-91-107, May 17, 1991).

Federal Buildings: Actions Needed to Prevent Further Deterioration and Obsolescence (GAO/GGD-91-57, May 13, 1991).

Navy Office Space: Cost Estimate for Consolidating the Naval Systems Commands May Be High (GAO/GGD-91-61, Mar. 8, 1991).

Facilities Location Policy: GSA Should Propose a More Consistent and Businesslike Approach (GAO/GGD-90-109, Sept. 28, 1990).

The Disinvestment in Federal Office Space (GAO/T-GGD-90-24, Mar. 20, 1990).

Federal Office Space: Increased Ownership Would Result in Significant Savings (GAO/GGD-90-11, Dec. 22, 1989).

Building Purchases: GSA's Program Is Successful but Better Policies and Procedures Are Needed (GAO/GGD-90-5, Oct. 31, 1989).

Public Buildings Service: GSA's Projection of Lease Costs in the 1990s (GAO/GGD-89-55, Apr. 19, 1989).

Building Operations: GSA's Delegations of Authority to Tenant Agencies (GAO/GGD-88-103, Aug. 3, 1988).

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